

LAKEVIEW DISTRICT FIRE DEPARTMENT

MONTCALM COUNTY, MICHIGAN

AUDIT REPORT

FEBRUARY 28, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LAKEVIEW DISTRICT FIRE DEPT	County MONTCALM
Fiscal Year End FEBRUARY 28, 2006	Opinion Date MAY 5, 2006	Date Audit Report Submitted to State JUNE 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

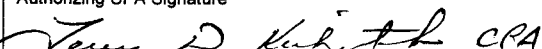
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) TERRY KIRKPATRICK, CPA, P.C.		Telephone Number 231-796-3332	
Street Address 211 MAPLE STREET		City BIG RAPIDS	State MI
		Zip 49307	
Authorizing CPA Signature 		Printed Name TERRY D. KIRKPATRICK	License Number 18035

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Independent Auditor's Report

Members of the Joint Administrative Fire Board
Lakeview District Fire Department, Montcalm County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeview District Fire Department, Montcalm County, Michigan, as of and for the year ended February 28, 2006, which collectively comprise Lakeview District Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Lakeview District Fire Department, Montcalm County, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The checking account used by the Fire District is handled by a credit union. The monthly statements of this account do not contain cancelled checks or pictures of the cancelled checks.

In our opinion, except for the lack of evidence from cancelled checks, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeview District Fire Department, Montcalm County, Michigan, as of February 28, 2006, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Lakeview District Fire Department has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, as of February 28, 2006. Management has elected not to present the Management's Discussion and Analysis portion of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lakeview District Fire Department, Montcalm County, Michigan basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Terry Kirkpatrick, CPA, P.C.

Big Rapids, Michigan
May 5, 2006

BASIC FINANCIAL STATEMENTS

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Government Wide Statement of Net Assets

February 28, 2006

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 50,038
Capital Assets (Net)	<u>116,647</u>
Total assets	<u>\$ 166,685</u>
LIABILITIES	
Payroll Taxes Payable	\$ 306
NET ASSETS	
Invested in capital assets, net of related debt	116,647
Unrestricted	<u>49,732</u>
Total net assets	<u>166,379</u>
Total liabilities and net assets	<u>\$ 166,685</u>

The "Notes to Financial Statements" are an integral part of these statements.

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Government Wide Statement of Activities
For the Year Ended February 28, 2006

	<u>Program Revenues</u>		<u>Governmental Activities</u>	
	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	
PRIMARY GOVERNMENT				
Public Safety	\$ (103,531) \$	12,251 \$	7,344 \$	(83,936)
Depreciation (unallocated)	(19,604)	0	0	(19,604)
Total primary government	\$ (123,135) \$	12,251 \$	7,344 \$	(103,540)
General Revenues				
Contributions from Local Units				96,550
Interest Earnings				2,304
Other Revenue				167
Total general revenues				99,021
Change in Net Assets				(4,519)
Net assets - Beginning of year				170,898
Net assets - End of year				166,379

The "Notes to Financial Statements" are an integral part of these statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan
 Governmental Fund Balance Sheet
 February 28, 2006

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 50,038
LIABILITIES AND FUND EQUITY	
Payroll Taxes Payable	\$ 306
Fireman Deposits in Trust	
Due to General Fund	
Fund Balance - Unreserved and Undesignated	49,732
Total liabilities and fund equity	\$ 50,038
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	
Total Governmental Fund Balances	\$ 50,038
Amounts reported for governmental activities in the statement of net assets are different because:	
Cost of capital assets, net of depreciation	116,647
Net assets of governmental activities	\$ 166,685

The "Notes to Financial Statements" are an integral part of these statements.

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan
 Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended February 28, 2006

	General Fund
REVENUES	
Contributions from Local Units	\$ 96,550
State Grants	7,344
Charges for Services	12,251
Interest and Rents	2,304
Other Revenue	167
Total revenues	<u>118,616</u>
EXPENDITURES	
Public Safety	<u>103,531</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	15,085
Fund Balance - March 1, 2005	34,647
Fund Balance - February 28, 2006	<u><u>49,732</u></u>

The "Notes to Financial Statements" are an integral part of these statements.

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to
the Statement of Activities

For the Year Ended February 28, 2006

Net Change in Fund Balances - Total Government Funds	\$ 15,085
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	<u>(19,604)</u>
Change in Net Assets of Governmental Activities	<u>\$ (4,519)</u>

The "Notes to Financial Statements" are an integrated part of these statements.

NOTES TO FINANCIAL STATEMENTS

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Notes to Financial Statements
For the Year Ended February 28, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of LAKEVIEW DISTRICT FIRE DEPARTMENT conform to accounting policies generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by LAKEVIEW DISTRICT FIRE DEPARTMENT:

Reporting Entity

A Joint Fire Authority Agreement was entered into 3/1/92 between Cato, Hinton and Pine Township pursuant to authority granted the Townships under PA 33 of 1951, Section 6, PA 365 of 1982, PA 102 of 1990 and PA 7 of 1967 (known as Urban Cooperation Act of 1967).

The Administrative Board of the Lakeview District Fire Department consists of six members with each of the Township Boards appointing two Township residents. One member of each Township is an elected Township Board member and one member appointed at large.

Government – Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be "available" if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Notes to Financial Statements - Continued

For the Year Ended February 28, 2006

The Fire District reports the following major governmental funds:

The General Fund is the Fire District's primary operating fund. It accounts for all financial resources of the Fire District, except those required to be accounted-for in another fund.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

Capital Assets – Capital assets, which include property, plant and equipment assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Building	40 years
Building Improvements	15 to 30 years
Equipment	5 to 10 years
Fire Vehicles	15 years

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental units. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, activity and line items. The legal level of budgetary control adopted by the governing body is the activity level. State law requires the Fire District have its budget in place by March 1st. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits a Fire District to amend its budgets during the year.

NOTE C – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Fire District is allowed to invest in bonds, securities and other direct obligations of the United States

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Notes to Financial Statements - Continued
For the Year Ended February 28, 2006

or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Fire District has designated one bank and one credit union for the deposit of Fire District Funds. The investment policy adopted by the Fire District Board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

The Fire District's deposits and investment policy are in accordance with statutory authority.

At year-end, the Fire District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 50,038

The bank balance of the primary government's deposits is \$61,828, of which \$61,828 is covered by federal depository insurance.

NOTE D – CAPITAL ASSETS

Capital asset activity of the governmental activities for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings	\$ 10,400	\$ 0	\$ 0	\$ 10,400
Fire vehicles	290,168	0	0	290,168
Less: accumulated depreciation for Capital assets	(164,317)	(19,604)		(183,921)
Net capital assets	\$ 136,251	\$ (19,604)	\$ 0	\$ 116,647

Depreciation expense was not charged to activities as the Fire District considers its assets to impact multiple activities and allocation is not practical.

NOTE E – RISK MANAGEMENT

The Fire District is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). The Fire District has purchased workers' compensation insurance for such claims. Settled claims relating to the workers' compensation insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

LAKEVIEW DISTRICT FIRE DEPARTMENT – Montcalm County, Michigan

Budgetary Comparison Schedule

General Fund

For the Year Ended February 28, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
BEGINNING OF YEAR FUND BALANCE	\$ 34,647	\$ 34,647	\$ 34,647	\$ 0
Resources (inflows)				
Contributions from Local Units	96,550	96,550	96,550	0
State Grants	0	0	7,344	7,344
Charges for Services	6,000	6,000	12,251	6,251
Interest and Rents	0	0	2,304	2,304
Other Revenue	0	0	167	167
Amounts Available for Appropriation	137,197	137,197	153,263	16,066
Charges to Appropriations (outflows)				
Public Safety				
Fire Department				
Salaries and wages	27,000	27,000	27,756	(756)
Social security and medicare	4,500	4,500	1,912	2,588
Supplies	2,650	2,650	3,065	(415)
Gas and oil	2,000	2,000	1,964	36
Contracted services	5,700	5,700	5,100	600
Repair and maintenance	9,500	9,500	9,863	(363)
Insurance	11,000	11,000	13,036	(2,036)
Utilities	5,500	5,500	7,038	(1,538)
Miscellaneous	2,700	2,700	4,030	(1,330)
Conferences/training	2,000	2,000	8,799	(6,799)
Principal payment	28,000	28,000	19,030	8,970
Interest expense	2,000	2,000	1,938	62
Total Charges to Appropriations	102,550	102,550	103,531	(981)
Budgetary Fund Balance - March 31, 2006	\$ 34,647	\$ 34,647	\$ 49,732	\$ 15,085

TERRY KIRKPATRICK, CPA, P.C.

Certified Public Accountant

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May 5, 2006

Members of the Board
Lakeview District Fire Department
Lakeview, MI 48850

I recently completed my audit of the general-purpose financial statements of the Lakeview District Fire Department for the year ended February 28, 2006. During the audit, I had an opportunity to test internal controls and to observe the accounting and financial procedures and many of the general management practices of the Fire District. Based upon these tests and observations, there are several matters that I specifically want to call to your attention.

LACK OF RETURN OF CANCELLED CHECKS AN INTERNAL CONTROL PROBLEM

The Fire District should remember the fact that cancelled checks not being returned with the monthly bank statement creates a very significant weakness in internal control. It eliminates the ability to know "positively" to whom each check was written. The District should strongly consider implementing a policy whereby all checks would be returned by the banking institution, or at the very minimum, request that a picture of the check be provided by the banking institution.

In my opinion, it is unacceptable for a public entity to utilize bank accounts that do not return cancelled checks or at least a photocopy of them. Public funds are placed at a much greater risk for no good reason.

This comment was made during the last audit in 2004 also.

UNIFORM CHART OF ACCOUNTS

The accounting records should be utilizing the Uniform Chart of Accounts required by the State of Michigan. Being that a new person is doing the bookkeeping this past year, using the chart of accounts would make his work much easier and also more accurate. I am available to sit down with him to assist in setting the books up in the proper manner.

BOARD APPROVAL OF ALL INVOICES PRIOR TO PAYMENT

In January of 2006, the Board approved the Treasurer paying "minor" invoices without Board approval at the Treasurer's discretion. The Board may authorize the Treasurer to pay bills such as utilities that may come due prior to the Board's next meeting, but all other invoices are to be approved by the Board prior to payment. The utility bills that were authorized for payment in advance should be brought to the next Board meeting so that the Board may witness the invoices.

INTERNAL CONTROL OVER CASH

The accounting department area of the Fire District is extremely small due to budget constraints. Therefore, it is imperative that the District put in place those internal controls that are available with little additional cost. Internal controls are meant to protect assets of the Fire District, and just as importantly, to protect the Treasurer. Without the controls mentioned above in the first three recommendations, there is very little protection for the Fire District or the Treasurer.

OTHER MATTERS

I have enjoyed working with your staff. Their competence and assistance were instrumental in my timely completion of the audit.

I have mailed two copies of the audit report, the auditing procedures report, and this letter to the Michigan Department of Treasury, Local Audit Division as is required.

If you have any questions regarding this letter or the audit, please do not hesitate to contact me.

James R. Light CFA, P.C.